I certify this to be a true and correct copy of the indicated document as referred or transmitted to committee.

Chief Clerk of the House

FILED FEB 20 2003

By: [signature]

H.J.R. No. 54

A JOINT RESOLUTION

proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 67, Article XVI, Texas Constitution, is amended by adding Subsection (h) to read as follows:

<u>(h) This subsection applies only to a retirement system that is not a statewide system and that provides retirement, disability, and death benefits to public officers and employees and to a statewide retirement system that provides retirement, disability, and death benefits to volunteer emergency services personnel. Membership in a retirement system is a contractual relationship, and benefits that a person has accrued in a retirement system, including disability and death benefits and any increases in benefits, may not be reduced or impaired.</u>

SECTION 2. This proposed constitutional amendment shall be submitted to the voters at an election to be held November 4, 2003. The ballot shall be printed to permit voting for or against the proposition: "The constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired."

HOUSE
COMMITTEE REPORT

03 APR 10 PM 12:32
HOUSE OF REPRESENTATIVES

1st Printing

By: King, Pena, Capelo, Swinford H.J.R. No. 54

Substitute the following for H.J.R. No. 54:

By: Grusendorf C.S.H.J.R. No. 54

A JOINT RESOLUTION

proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 67, Article XVI, Texas Constitution, is amended by adding Subsection (h) to read as follows:

(h) This subsection applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees and to a statewide public retirement system that provides service and disability retirement benefits and death benefits to volunteer emergency services personnel. Benefits under a retirement system to which this subsection applies may not be reduced or impaired for service performed before the effective date of any change in the benefit structure, and benefits granted to any retiree or other annuitant before the effective date of this subsection and in effect on that effective date, may not be reduced or impaired. This obligation is the responsibility of the political subdivision or subdivisions that finance the particular retirement system.

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held November 4, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment to guarantee benefits earned in local public retirement systems and certain statewide public retirement

COMMITTEE REPORT

The Honorable Tom Craddick
Speaker of the House of Representatives

3/31/03
(date)

Sir:

We, your COMMITTEE ON PENSIONS AND INVESTMENTS
to whom was referred HJR 54 have had the same under consideration and beg to report back with the recommendation that it

( ) do pass, without amendment.
( ) do pass, with amendment(s).
(✓) do pass and be not printed; a Complete Committee Substitute is recommended in lieu of the original measure.

(✓) yes ( ) no A fiscal note was requested.
( ) yes (✓) no A criminal justice policy impact statement was requested.
( ) yes (✓) no An equalized educational funding impact statement was requested.
(✓) yes ( ) no An actuarial analysis was requested.
( ) yes (✓) no A water development policy impact statement was requested.
( ) yes (✓) no A tax equity note was requested.
( ) The Committee recommends that this measure be sent to the Committee on Local and Consent Calendars.

For Senate Measures: House Sponsor ______________________

Joint Sponsors: ____________ / ____________ / ____________ / ____________

Co-Sponsors: ____

The measure was reported from Committee by the following vote:

	AYE	NAY	PNV	ABSENT
Ritter, Chair	✓			
Telford, Vice-Chair				✓
Grusendorf	✓			
McClendon				✓
Martinez Fischer	✓			
Pena	✓			
Rose	✓			

Total
5 aye
0 nay
0 present, not voting
2 absent

Allan B. Ritter
CHAIR

BILL ANALYSIS

C.S.H.J.R. 54
By: King
Pensions & Investments
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Texas statutory law and local ordinances created pension plans, but a Depression-era ruling by the Texas Supreme Court, *City of Dallas v. Trammell,* in 1937 subordinated Texans' right to that property, should the Legislature or local government take actions to diminish or abolish people's benefits. Dallas public employees' pensions were actually cut in half and the Texas Supreme Court ruled Texas law allowed this action. Currently, Texas law allows for pension plans for employees of local governments. However, there is no law that provides a guarantee that retiring municipal employees will receive the pension benefits promised to them under these pension plans. Even if a public employee has fulfilled all obligations required to collect full benefits at the time of his or her retirement, he or she may not receive the full benefits earned through a lifetime of public service. Under ERISA (Employee Retirement Income Security Act), private-sector employees have no similar jeopardy. This issue dramatically impacts the retirement security of the men and women who provide police and fire protection, as well as those who operate our cities and other units of local government. Texas's neighbors, Louisiana and Oklahoma, have the toughest laws protecting public employee pension funds.

CSHJR 54 would guarantee an annuitant's benefit, and provide for securing the formula/multiplier for the active or inactive member for the years worked should it need to be changed in the future. It also states that a local government is only responsible for what they have previously agreed to.

RULEMAKING AUTHORITY

It is the committee's opinion that this resolution does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution..

ANALYSIS

SECTION 1: Amends Section 67, Article XVI, Texas Constitution by adding Subsection (h) which states that the retirement and death benefits provided by a public retirement system which is not a statewide retirement system or is a statewide system for voluntary emergency services personnel may not reduce or impair benefits for service performed before the effective date of this amendment. Annuitants are guaranteed their formula/multiplier for the years they worked under that formula/multiplier. Future benefits to the persons not retired, however, may be manipulated by the pension system if necessary to ensure the funds soundness. It also provides that a local government is responsible for only what they have previously agreed to.

FOR ELECTION

Election to be held November 4, 2003.

COMPARISON OF ORIGINAL TO SUBSTITUTE

The original bill guaranteed pension and death benefits for members of a public pension fund that is not a statewide plan or is a statewide plan for volunteer emergency services personnel by stating that membership in such a plan is a contractual relationship. It did not guarantee any benefits for persons who were no longer members on its effective date. The substitute changes this provision to guarantee only benefits already received under formulas worked under and guarantee benefits for current annuitants.. It gives the local government the ability to alter benefits in the future for protection of the pension fund. A local government is not responsible for anything other than what has been previously agreed to.

SUMMARY OF COMMITTEE ACTION

HJR 54

March 24, 2003 8:00AM

Considered in public hearing
Testimony taken in committee (See attached witness list.)
Left pending in committee

March 31, 2003 8:00AM

Considered in public hearing
Committee substitute considered in committee
Reported favorably as substituted

3

WITNESS LIST

HJR 54
HOUSE COMMITTEE REPORT
Pensions & Investments Committee

March 24, 2003 - 8:00AM

For:
Brown, Gerald (Dallas Police and Fire Pension System)
Brown, Paul (Big Spring FRRF)
Cowgill, Jim (Texas Silver-Haired Legislature)
Davis, John (El Paso Fireman & Policemans Pension Fund)
Elkin, Bill (Houston Police Retired Officers Association)
Griffith, Charles (Dallas City Retired Employees Association)
Lawson, Gary (NCPERS)
Stalnaker, Randy (Tx Assoc. of Public Employee Retirement Systems)

Against:
Utter, Tom (City of Corpus Christi)

On:
Sandefer, Morris (Office of the Firefighters Pension Commissioner)

4

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated, other than the cost of publication.
The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems, and the Statewide Emergency Services Personnel Retirement Fund. Under the resolution, accrued benefits could not be reduced or impaired. If fund balances were insufficient to pay benefits, all costs would be the responsibility of the political subdivision which is the plan sponsor.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way. The proposed constitutional amendment would only allow increased plan sponsor contributions; based on current asset values these would need to be doubled and might increase more. Plans not receiving increased contributions would eventually become "pay as you go" and for some, costs could be more than 100 percent of payroll.

Due to their size, major municipal plans would have the majority of any fiscal implications, and the 13 largest are used for examples in this analysis. Additional similar fiscal implications would occur for other plans and their sponsors.

Certain plans have provisions which reduce plan sponsor liabilities for cost increases; sponsors for these plans would have a direct fiscal impact from the constitutional amendment. Some plans have statutory provisions which reduce benefits if fund balances are insufficient to pay benefits; other plans have agreements or provisions to increase member contributions when contribution increases arise; agreements would clearly be superceded by the amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is

5

the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would remove the ability of cities to reduce this obligation through plan design changes. Being unable to impair benefits would mean recent plan design changes such as lower retirement eligibility, Deferred Retirement Option Plans (DROPs), and automatic post retirement benefit increases greater than inflation can't be changed. Allowable changes would be reducing or ending all future benefit accruals, though these would not reduce current obligations. Retiree health obligations may implicitly be affected.

For reviewed plans, we estimate liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) We project the impact of earning 4.5 percent investment return over the next five years as a likely mid-level "test" scenario due to low inflation, historically low interest rates for Treasury bills, and reduced expectations for the stock market in the short term. Due to shortfalls in municipal budgets, we assume no increases in contribution rates above current levels are made to pay off unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected. Contribution increases due to payroll growth above the amount described above are excluded from this analysis, but would add to city costs. A low assumption where plans earn no interest over the next five years roughly doubles liability and contribution increases as compared with the test scenario. The scenario that systems earn their assumed investment rates for five years but receive no contribution increases still results in unfunded liabilities growing by roughly 50 percent from current amounts as do contribution increases.

Contribution increase estimates are based on the normal cost plus paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. We assume no plans increase benefits above current levels, though many statutory plans can do so without changing their statutes. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

Plans analyzed include municipal employees, firefighters, and police. For San Antonio, only the combined firefighter and police plan is included. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million which increase to $1.1 billion in 2007 under the test scenario; this translates into $2,600 per household or $4,350 per household respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase, and the test scenario has an $80 million increase.

Dallas retirement systems have unfunded liabilities of $1.9 billion which increase to $3.7 billion in 2007 under the test scenario; this translates into $4,450 per household or $8,600 per household respectively. Contributions are $110 million now; realizing 2002 losses requires a $155 million increase, and the test scenario has a $310 million increase.

El Paso retirement systems have unfunded liabilities of $440 million which increase to $820 million in 2007 under the test scenario; this translates into $2,550 per household or $4,700 per household respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase, and the test scenario has a $65 million increase.

Fort Worth retirement systems have unfunded liabilities of $510 million which increase to $1.0 billion in 2007 under the test scenario; this translates into $2,590 per household or $5,240 per household respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase, and the test scenario has an $80 million increase.

Houston retirement systems have unfunded liabilities of $2.4 billion which increase to $4.9 billion in 2007 under the test scenario; this translates into $3,450 per household or $7,150 per household respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase, and the test scenario has a $450 million increase.

6

San Antonio retirement systems have unfunded liabilities of $2.4 billion which increase to $4.9 billion in 2007 under the test scenario; this translates into $3,450 per household or $7,150 per household respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase, and the test scenario has a $450 million increase.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board
LBB Staff: JK, JO, RR, WM

7

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

March 23, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems. Some plans have provisions to increase member contributions when increased unfunded liabilities arise, these provisions would superceded by the amendment unless their employees agreed to increased contributions.

Unless investment returns are above their assumptions of 8 or 8.5 percent for the next few years, losses will be realized and plan sponsors will have to significantly increase contributions, or reduce benefits in some way.

Due to their size, major municipal plans would have the majority of any fiscal implications, and are used for examples in this fiscal note. Additional similar fiscal implications would occur for other plans and their sponsors.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board
LBB Staff: JK, JO, RR, WM

8

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: HJR54 by King (
Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.
), **Committee Report 1st House, Substituted**

CSHJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, accrued benefits could not be reduced or impaired.

If the systems affected did not need to change their assumptions and their current assumptions were reasonably accurate for the long term, the resolution may have no actuarial impact. If circumstances suggested changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to increase retirement age, or even make minor adjustments to plan design that resulted in any loss of benefits.

A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If interest returns are below assumptions for the next few years, the plans' actuarial health will further deteriorate; with 5 years of 4.5 percent interest return with no increases above current contributions the funding ratios are estimated to range from 0.41 to 0.63. Using market fund values, on a level dollar basis, employer contributions 3 times greater than current contributions are already necessary to keep some plans from deteriorating further.

The proposal would limit the ability of plans to increase member contributions or make benefit changes to assist in improving the actuarial health of the fund. It would supercede existing arrangements to have members partially contribute towards the cost of emerging liabilities. This lack of flexibility may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plan to pay benefits, though the political subdivision that was the plan sponsor would be required to do so. In effect, the plans could become "pay as you go".

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

9

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

March 24, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

HJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems.

If the systems affected did not need to change their assumptions and their current assumptions were reasonably accurate for the long term, the resolution may have no actuarial impact. If circumstances suggested changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to increase retirement age, or even make minor adjustments to plan design that resulted in any loss of benefits.

A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If interest returns are below assumptions for the next few years, the plans' actuarial health will further deteriorate; with 5 years of 4.5 percent interest at current contributions the funding ratios are estimated to range from 0.41 to 0.63. Using market fund values, on a level dollar basis, employer contributions 3 times greater than current contributions are already necessary to keep some plans from deteriorating further.

The proposal would limit the ability of the plans to increase member contributions or make benefit changes to assist in improving the actuarial health of the fund. It would supercede existing arrangements to have members partially contribute towards the cost of emerging liabilities, unless the employees agreed to continue them. This lack of flexibility may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plan to pay benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

10

(((This is Insert ( )))

ADOPTED NCB as amended

APR 29 2003

Robert Haney
Chief Clerk
House of Representatives

By: King H.J.R. No. 54

Substitute the following for H.J.R. No. 54:

By: Geusendorf C.S.H.J.R. No. 54

A JOINT RESOLUTION

proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

Amd 2(1)

SECTION 1. Section 67, Article XVI, Texas Constitution, is amended by adding Subsections (h) and (i) to read as follows:

(h) This subsection applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees and to a statewide public retirement system that provides service and disability retirement benefits and death benefits to volunteer emergency services personnel.

Amd 1(1)

Income Benefits under a retirement system to which this subsection applies may not be reduced or impaired for service performed before the effective date of any change in the benefit structure, and benefits granted to any retiree or other annuitant before the effective date of this subsection and in effect on that effective date, may not be reduced or impaired. ~~This obligation is the responsibility of the political~~

Amd 1(2)

(((Insert 2)))

~~subdivision or subdivisions that finance the particular retirement system.~~ ((Insert 3))

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held November 4, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment to guarantee benefits earned in local public retirement systems and certain statewide public retirement systems."

LIST OF HOUSE AMENDMENTS PREVIOUSLY UNDER CONSIDERATION

HJR54-Second Reading

AMENDMENT#	AUTHOR	DESCRIPTION	ACTION
1	King	Amendment	Adopted
2	Lewis	Amendment	Adopted

((This is Insert 2))

ADOPTED

APR 29 2003

Robert Haney
Chief Clerk
House of Representatives

FLOOR AMENDMENT NO. 1 BY: King

Amend C.S.H.J.R. No. 54 as follows:

(1) On page 1, line 12, after the period, strike "Benefits" and substitute "Income benefits".

(2) On page 1, lines 18-20, strike the last sentence of ~~Subsection (h) and substitute~~ "The obligation to not reduce or impair benefits is the joint responsibility of the active members of a retirement system and the state or the political subdivision or subdivisions that finance the retirement system. This subsection does not apply to a member of a retirement system who has not qualified to receive benefits under the requirements of the retirement system."

(((This is Insert 3))) cn

782163

ADOPTED

APR 29 2003

Robert Haney
Chief Clerk
House of Representatives

NCB

FLOOR AMENDMENT NO. 2 BY: Glenn O. Lewis

Amend C.S.H.J.R. No. 54 as follows:

(1) On page 1, line 6, strike "Subsection (h)" and insert "Subsections (h) and (i)".

(2) On page 1, between lines 20 and 21, insert the following:

(i) A political subdivision and a public retirement system described by Subsection (h) are exempt from the application of Subsection (h) if the political subdivision holds an election on the date in May, 2004, that political subdivisions are required to use for the election of their officers and the majority of the voters of the political subdivision voting at the election favor exempting the political subdivision and the public retirement system from the application of Subsection (h).

2ND READING
ENGROSSMENT

By: King, Pena, Jones of Bexar, Capelo, Swinford H.J.R. No. 54

A JOINT RESOLUTION

proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 67, Article XVI, Texas Constitution, is amended by adding Subsections (h) and (i) to read as follows:

(h) This subsection applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees and to a statewide public retirement system that provides service and disability retirement benefits and death benefits to volunteer emergency services personnel. Income benefits under a retirement system to which this subsection applies may not be reduced or impaired for service performed before the effective date of any change in the benefit structure, and benefits granted to any retiree or other annuitant before the effective date of this subsection and in effect on that effective date may not be reduced or impaired. The obligation to not reduce or impair benefits is the joint responsibility of the active members of a retirement system and the state or the political subdivision or subdivisions that finance the retirement system. This subsection does not apply to a member of a retirement system who has not qualified to receive benefits under the requirements of the retirement system.

(i) A political subdivision and a public retirement system

<u>described by Subsection (h) are exempt from the application of Subsection (h) if the political subdivision holds an election on the date in May 2004 that political subdivisions are required to use for the election of their officers and the majority of the voters of the political subdivision voting at the election favor exempting the political subdivision and the public retirement system from the application of Subsection (h).</u>

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held November 4, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment to guarantee benefits earned in local public retirement systems and certain statewide public retirement systems."

H.J.R. No. 54 By

proposing a constitutional amendment providing that membership in certain retirement systems is relationship and that accrued benefits in those systems cannot be reduced or impaired.

FEB 2 0 2003 Filed with the Chief Clerk

MAR 0 3 2003 Read first time and referred to Committee on Pensions and Investments

MAR 3 1 2003 Reported favorably ([redacted]) (as substituted)

APR 1 1 2003 Sent to Committee on Calendars

APR 2 9 2003 Read second time (comm. subst.) (amended) and adopted ([redacted]) by a record vote of 137 yeas, 0 nays, 1 present, not voting

Read third time (amended) and finally adopted (failed of adoption) by a record vote of ______ yeas, ______ nays, ______ present, not voting

Engrossed

Sent to Senate

Robert Haney
CHIEF CLERK OF THE HOUSE

OTHER HOUSE ACTION:

Received from the House

Read and referred to Committee on

Reported favorably

Reported adversely, with favorable Committee Substitute; Committee Substitute read first time

Ordered not printed

Laid before the Senate

Senate and Constitutional Rules to permit consideration suspended by (unanimous consent) (______ yeas, ______ nays)

Read second time, ______, and passed to third reading by (unanimous consent) (a viva voce vote) (______ yeas, ______

Senate and Constitutional 3 Day Rules suspended by a vote of ______ yeas, ______ nays

Read third time, ______, and passed by ______ yeas, ______ nays

Returned to the House

SECRETARY OF THE SENATE

OTHER SENATE ACTION:

F

HOUSE ENGROSSMENT

By: King, Pena, Jones of Bexar, Capelo, Swinford

H.J.R. No. 54

A JOINT RESOLUTION

proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 67, Article XVI, Texas Constitution, is amended by adding Subsections (h) and (i) to read as follows:

(h) This subsection applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees and to a statewide public retirement system that provides service and disability retirement benefits and death benefits to volunteer emergency services personnel. Income benefits under a retirement system to which this subsection applies may not be reduced or impaired for service performed before the effective date of any change in the benefit structure, and benefits granted to any retiree or other annuitant before the effective date of this subsection and in effect on that effective date may not be reduced or impaired. The obligation to not reduce or impair benefits is the joint responsibility of the active members of a retirement system and the state or the political subdivision or subdivisions that finance the retirement system. This subsection does not apply to a member of a retirement system who has not qualified to receive benefits under the requirements of the retirement system.

(i) A political subdivision and a public retirement system

<u>described by Subsection (h) are exempt from the application of Subsection (h) if the political subdivision holds an election on the date in May 2004 that political subdivisions are required to use for the election of their officers and the majority of the voters of the political subdivision voting at the election favor exempting the political subdivision and the public retirement system from the application of Subsection (h).</u>

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held November 4, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment to guarantee benefits earned in local public retirement systems and certain statewide public retirement systems."

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems, and the Statewide Emergency Services Personnel Retirement Fund. Under the resolution, accrued benefits could not be reduced or impaired. If fund balances were insufficient to pay benefits, all costs would be the responsibility of the political subdivision which is the plan sponsor.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way. The proposed constitutional amendment would only allow increased plan sponsor contributions; based on current asset values these would need to be doubled and might increase more. Plans not receiving increased contributions would eventually become "pay as you go" and for some, costs could be more than 100 percent of payroll.

Due to their size, major municipal plans would have the majority of any fiscal implications, and the 13 largest are used for examples in this analysis. Additional similar fiscal implications would occur for other plans and their sponsors.

Certain plans have provisions which reduce plan sponsor liabilities for cost increases; sponsors for these plans would have a direct fiscal impact from the constitutional amendment. Some plans have statutory provisions which reduce benefits if fund balances are insufficient to pay benefits; other plans have agreements or provisions to increase member contributions when contribution increases arise; agreements would clearly be superceded by the amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is

the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would remove the ability of cities to reduce this obligation through plan design changes. Being unable to impair benefits would mean recent plan design changes such as lower retirement eligibility, Deferred Retirement Option Plans (DROPs), and automatic post retirement benefit increases greater than inflation can't be changed. Allowable changes would be reducing or ending all future benefit accruals, though these would not reduce current obligations. Retiree health obligations may implicitly be affected.

For reviewed plans, we estimate liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) We project the impact of earning 4.5 percent investment return over the next five years as a likely mid-level "test" scenario due to low inflation, historically low interest rates for Treasury bills, and reduced expectations for the stock market in the short term. Due to shortfalls in municipal budgets, we assume no increases in contribution rates above current levels are made to pay off unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected. Contribution increases due to payroll growth above the amount described above are excluded from this analysis, but would add to city costs. A low assumption where plans earn no interest over the next five years roughly doubles liability and contribution increases as compared with the test scenario. The scenario that systems earn their assumed investment rates for five years but receive no contribution increases still results in unfunded liabilities growing by roughly 50 percent from current amounts as do contribution increases.

Contribution increase estimates are based on the normal cost plus paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. We assume no plans increase benefits above current levels, though many statutory plans can do so without changing their statutes. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

Plans analyzed include municipal employees, firefighters, and police. For San Antonio, only the combined firefighter and police plan is included. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million which increase to $1.1 billion in 2007 under the test scenario; this translates into $2,600 per household or $4,350 per household respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase, and the test scenario has an $80 million increase.

Dallas retirement systems have unfunded liabilities of $1.9 billion which increase to $3.7 billion in 2007 under the test scenario; this translates into $4,450 per household or $8,600 per household respectively. Contributions are $110 million now; realizing 2002 losses requires a $155 million increase, and the test scenario has a $310 million increase.

El Paso retirement systems have unfunded liabilities of $440 million which increase to $820 million in 2007 under the test scenario; this translates into $2,550 per household or $4,700 per household respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase, and the test scenario has a $65 million increase.

Fort Worth retirement systems have unfunded liabilities of $510 million which increase to $1.0 billion in 2007 under the test scenario; this translates into $2,590 per household or $5,240 per household respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase, and the test scenario has an $80 million increase.

Houston retirement systems have unfunded liabilities of $2.4 billion which increase to $4.9 billion in 2007 under the test scenario; this translates into $3,450 per household or $7,150 per household respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase, and the test scenario has a $450 million increase.

2

San Antonio retirement systems have unfunded liabilities of $2.4 billion which increase to $4.9 billion in 2007 under the test scenario; this translates into $3,450 per household or $7,150 per household respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase, and the test scenario has a $450 million increase.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board
LBB Staff: JK, JO, RR, WM

3

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

March 23, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems. Some plans have provisions to increase member contributions when increased unfunded liabilities arise, these provisions would superceded by the amendment unless their employees agreed to increased contributions.

Unless investment returns are above their assumptions of 8 or 8.5 percent for the next few years, losses will be realized and plan sponsors will have to significantly increase contributions, or reduce benefits in some way.

Due to their size, major municipal plans would have the majority of any fiscal implications, and are used for examples in this fiscal note. Additional similar fiscal implications would occur for other plans and their sponsors.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board
LBB Staff: JK, JO, RR, WM

4

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (
Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.
), **Committee Report 1st House, Substituted**

CSHJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, accrued benefits could not be reduced or impaired.

If the systems affected did not need to change their assumptions and their current assumptions were reasonably accurate for the long term, the resolution may have no actuarial impact. If circumstances suggested changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to increase retirement age, or even make minor adjustments to plan design that resulted in any loss of benefits.

A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If interest returns are below assumptions for the next few years, the plans' actuarial health will further deteriorate; with 5 years of 4.5 percent interest return with no increases above current contributions the funding ratios are estimated to range from 0.41 to 0.63. Using market fund values, on a level dollar basis, employer contributions 3 times greater than current contributions are already necessary to keep some plans from deteriorating further.

The proposal would limit the ability of plans to increase member contributions or make benefit changes to assist in improving the actuarial health of the fund. It would supercede existing arrangements to have members partially contribute towards the cost of emerging liabilities. This lack of flexibility may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plan to pay benefits, though the political subdivision that was the plan sponsor would be required to do so. In effect, the plans could become "pay as you go".

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

5

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

March 24, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

HJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems.

If the systems affected did not need to change their assumptions and their current assumptions were reasonably accurate for the long term, the resolution may have no actuarial impact. If circumstances suggested changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to increase retirement age, or even make minor adjustments to plan design that resulted in any loss of benefits.

A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If interest returns are below assumptions for the next few years, the plans' actuarial health will further deteriorate; with 5 years of 4.5 percent interest at current contributions the funding ratios are estimated to range from 0.41 to 0.63. Using market fund values, on a level dollar basis, employer contributions 3 times greater than current contributions are already necessary to keep some plans from deteriorating further.

The proposal would limit the ability of the plans to increase member contributions or make benefit changes to assist in improving the actuarial health of the fund. It would supercede existing arrangements to have members partially contribute towards the cost of emerging liabilities, unless the employees agreed to continue them. This lack of flexibility may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plan to pay benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

6

By: King, et al. (Senate Sponsor - Brimer) H.J.R. No. 54

(In the Senate - Received from the House April 30, 2003; May 7, 2003, read first time and referred to Committee on State Affairs; May 26, 2003, reported adversely, with favorable Committee Substitute by the following vote: Yeas 6, Nays 0; May 26, 2003, sent to printer.)

COMMITTEE SUBSTITUTE FOR H.J.R. No. 54 By: Armbrister

HOUSE JOINT RESOLUTION

proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Article XVI, Texas Constitution, is amended by adding Section 66 to read as follows:

Sec. 66. PROTECTED BENEFITS UNDER CERTAIN PUBLIC RETIREMENT SYSTEMS. (a) This section applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees.

(b) This section does not apply to a public retirement system that provides service and disability retirement benefits and death benefits to firefighters and police officers employed by the City of San Antonio.

(c) This section does not apply to benefits that are:

(1) health benefits;

(2) life insurance benefits; or

(3) disability benefits that a retirement system determines are no longer payable under the terms of the retirement system as those terms existed on the date the retirement system began paying the disability benefits.

(d) On or after the effective date of this section, a change in service or disability retirement benefits or death benefits of a retirement system may not reduce or otherwise impair benefits accrued by a person if the person:

(1) could have terminated employment or has terminated employment before the effective date of the change; and

(2) would have been eligible for those benefits, without accumulating additional service under the retirement system, on any date on or after the effective date of the change had the change not occurred.

(e) Benefits granted to a retiree or other annuitant before the effective date of this section and in effect on that date may not be reduced or otherwise impaired.

(f) The political subdivision or subdivisions and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under this section are not reduced or otherwise impaired.

(g) This section does not create a liability or an obligation to a retirement system for a member of the retirement system other than the payment by active members of a required contribution or a future required contribution to the retirement system.

(h) A retirement system described by Subsection (a) and the political subdivision or subdivisions that finance benefits under the retirement system are exempt from the application of this section if:

(1) the political subdivision or subdivisions hold an election on the date in May 2004 that political subdivisions may use for the election of their officers;

(2) the majority of the voters of a political subdivision voting at the election favor exempting the political subdivision and the retirement system from the application of this section; and

(3) the exemption is the only issue relating to the funding and benefits of the retirement system that is presented to the voters at the election.

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held September 13, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment providing that certain benefits under certain local public retirement systems may not be reduced or impaired."

* * * * *

FAVORABLY AS SUBSTITUTED
SENATE COMMITTEE REPORT ON

SB SCR SJR SR HB HCR HJR 54

By King / Brimer
(Author/Senate Sponsor)

5-26-03
(date)

We, your Committee on STATE AFFAIRS, to which was referred the attached measure, have on 5-22-03 (date of hearing), had the same under consideration and I am instructed to report it back with the recommendation (s) that it:

(✓) do pass as substituted, and be printed
( ) the caption remained the same as original measure
( ) the caption changed with adoption of the substitute

( ) do pass as substituted, and be ordered not printed

(✓) and is recommended for placement on the Local and Uncontested Bills Calendar.

A fiscal note was requested. (✓) yes ( ) no

A revised fiscal note was requested. (✓) yes ( ) no

An actuarial analysis was requested. ( ) yes ( ) no

Considered by subcommittee. ( ) yes ( ) no

The measure was reported from Committee by the following vote:

	YEA	NAY	ABSENT	PNV
Senator William R. Ratliff, Chair	✓			
Senator Todd Staples, Vice-Chair	✓			
Senator Ken Armbrister	✓			
Senator Robert Duncan			✓	
Senator Rodney Ellis	✓			
Senator Troy Fraser	✓			
Senator Chris Harris			✓	
Senator Frank Madla			✓	
Senator Jane Nelson	✓			
TOTAL VOTES	6	0	3	0

COMMITTEE ACTION

S260 Considered in public hearing
S270 Testimony taken

Nancy B Fincher
COMMITTEE CLERK

Ratliff
CHAIRMAN

Paper clip the original and one copy of this signed form to the original bill along with TWO copies of the Committee Substitute
Retain one copy of this form for Committee files

WITNESS LIST

HJR 54

SENATE COMMITTEE REPORT

State Affairs

May 19, 2003 - 8:00AM

FOR: Lawson, John E. (Houston Police Officers' Pension System), Houston, TX

Registering, but not testifying:

FOR: Aghamalian, Brandon (City of Fort Worth), Fort Worth, TX
Andersen, Cris (San Antonio Police Officers' Association), San Antonio, TX
Bresnen, Steve (Ft. Worth Professional Fire Fighters Assoc.), Ft. Worth, TX
Elkin, W.M. "Bill" (Houston Police Retired Officers Association), Houston, TX
Higgins, Mike (Texas State Association of Fire Fighters), Austin, TX
Jordan, Sampson K. (City of Austin Police Retirement System), Austin, TX
Montero, James E. (Houston Police Officers Pension System), Houston, TX
Navarro, Jr., Wilfred (Houston Police Retired Off's Association), Houston, TX
Rendon, Feliciano (San Antonio Police Officers Association), San Antonio, TX

ON: Burney, Frank (Fire & Police Pension Fund, San Antonio), San Antonio, TX
Schott, Warren (San Antonio Fire & Police Pension Fund), San Antonio, TX

BILL ANALYSIS

Senate Research Center

C.S.H.J.R. 54
By: King (Brimer)
State Affairs
5/24/2003
Committee Report (Substituted)

DIGEST AND PURPOSE

The State of Texas and local governments, by statute and by ordinance, have created pension plans for local government public servants. Although the pension rights of private sector employees are protected under ERISA (federal Employee Retirement Income Security Act), currently there is no Texas law guaranteeing that these retiring public servants will receive the benefits promised to them under their pensions plans. In 1937, the Texas Supreme Court ruled in Dallas v. Trammel, 101 S.W.2d 1009 (Tex. 1937), that a retired police officer did not have a vested right to future pension benefits from the City of Dallas, and the state therefore was permitted to enact legislation reducing those anticipated benefits. This means that even if a public employee has fulfilled all obligations required to collect full benefits at the time of his or her retirement, the legislature or a local government may later enact a law reducing the anticipated benefits. C.S.H.J.R 54 proposes a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Article XVI, Texas Constitution, by adding Section 66, as follows:

Sec. 66. PROTECTED BENEFITS UNDER CERTAIN PUBLIC RETIREMENT SYSTEMS. (a) Provides that this section applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees.

(b) Provides that this section does not apply to a public retirement system that provides service and disability retirement benefits and death benefits to firefighters and police officers employed by the City of San Antonio.

(c) Provides that this section does not apply to benefits that are: health benefits; life insurance benefits; or disability benefits that a retirement system determines are no longer payable under the terms of the retirement system as those terms existed on the date the retirement system began paying the disability benefits.

(d) Provides that on or after the effective date of this section, a change in service or disability retirement benefits or death benefits of a retirement system may not reduce or otherwise impair benefits accrued by a person if the person: could have terminated employment or has terminated employment before the effective date of the change; and would have been eligible for those benefits, without accumulating additional service under the retirement system, on any date on or after the effective date of the change had the change not occurred.

(e) Provides that benefits granted to a retiree or other annuitant before the effective date of this section and in effect on that date may not be reduced or otherwise impaired.

(f) Provides that the political subdivision or subdivisions and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under this section are not reduced or otherwise impaired.

(g) Provides that this section does not create a liability or an obligation to a retirement system for a member of the retirement system other than the payment by active members of a required contribution or a future required contribution to the retirement system.

(h) Provides that a retirement system described by Subsection (a) and the political subdivision or subdivisions that finance benefits under the retirement system are exempt from the application of this section if: the political subdivision or subdivisions hold an election on the date in May 2004 that political subdivisions may use for the election of their officers; the majority of the voters of a political subdivision voting at the election favor exempting the political subdivision and the retirement system from the application of this section; and the exemption is the only issue relating to the funding and benefits of the retirement system that is presented to te voters at the election.

SECTION 2. Requires this constitutional amendment to be submitted to the voters at an election to be held September 13, 2003. Requires the ballot to be printed to allow for voting for or against the proposition: "The constitutional amendment providing that certain benefits under certain local public retirement systems may not be reduced or impaired."

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 24, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.), **Committee Report 2nd House, Substituted**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems. Under the resolution, accrued benefits could not be reduced or impaired for retirees and active members eligible to retire prior to any proposed change in benefits. If fund balances were insufficient to pay benefits, costs would be the responsibility of the political subdivision which is the plan sponsor. If a political subdivision has an election in May 2004 and the majority votes to opt out of this requirement, their retirement system would not have this protection and they would have no fiscal implication from the constitutional amendment.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way. The proposed constitutional amendment would not allow increased contributions from active members to assist in making up any shortfall.

Due to their size, major municipal plans would have the majority of any fiscal implications, and 12 of the largest are used for examples in this analysis. Similar fiscal implications are anticipated to occur for other plans and their sponsors, except the city of San Antonio which is generally exempted. Some plans have provisions which reduce benefits if fund balances are insufficient to pay benefits; sponsors for these plans would have a direct fiscal impact from the constitutional amendment. Other plan sponsors, including El Paso and Dallas, have agreements with their plans to increase member contributions when actuarially required contribution increases arise; these agreements would be negated by the amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would greatly reduce the ability of cities to reduce this obligation through plan design changes. We estimate that for some plans, 80 percent of the liability (AAL) would be directly protected by the amendment, for others somewhat less than 70 percent of the AAL would be directly protected. The protected liability includes liability for retirees, active members eligible to retire, and for our calculation, liability for those eligible to retire in the next two years, since for these plans any reductions would be unlikely take effect prior to the end of the next legislative session. Plans which have generous early retirement eligibility, especially fire and police plans, would be more greatly affected; some allow early retirement at age 45 with 5 years of service. If such a plan reduced benefits for all non-protected members by a fairly significant amount, say 25 percent, under the scenarios below they would only reduce their unfunded liabilities and additional costs by an eighth. Other plans would be able to have a somewhat greater impact on their unfunded liabilities by reducing benefits for non-protected members. The best funded plans would be able to have a somewhat greater impact on unfunded liabilities with benefit changes, while the least well funded plans would have less ability to have an impact on unfunded liabilities with benefit changes.

Being unable to impair benefits would mean recent plan design changes such as automatic post retirement benefit increases greater than inflation can't be changed for protected members. Also, increased eligibility requirements for Deferred Retirement Option Plans (DROPs) could never be added for those eligible to retire, even those only eligible for early retirement. Allowable changes for them would be reducing or ending all future benefit accruals, though these would not reduce current obligations.

For reviewed plans, we estimate (market-value) liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) In addition to projecting the impact of meeting plan assumptions of 8 or 8.5 percent over the next five years, we project the impact of earning 4.5 percent investment return over the next five years as a likely "test" scenario. Projected returns are below historic averages due to low inflation, historically low interest rates for Treasury bills and other fixed income, and reduced expectations for the stock market in the short term. If these lower returns come to pass, plans may need to revisit economic assumption changes made in the 1990s, which would increase liabilities and costs. A combination of a six percent return and a modest economic assumption change is anticipated to have effects similar to the test scenario. Due to deferred recognition of asset losses, we assume for the five-year period no increases in contribution rates for unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected.

Contribution increases shown are only those attributable to unfunded liabilities and current normal cost shortfalls, and are based on paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

Plans analyzed include municipal employees, firefighters, and police. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million, which under the plan assumptions and test scenarios grow to $950 million and $1.3 billion, respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase; the plan assumption and test scenarios require increases of $70 million and $90 million, respectively.

Dallas retirement systems have unfunded liabilities of $1.9 billion, which under the plan assumptions and test scenarios grow to $2.9 billion and $3.7 billion, respectively. Current contributions are $110 million; realizing 2002 losses requires a $150 million increase; the plan assumption and test scenarios require increases of $240 million and $310 million, respectively.

El Paso retirement systems have unfunded liabilities of $440 million, which under the plan assumptions and test scenarios grow to $650 million and $820 million, respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $50 million and $65 million, respectively.

Fort Worth retirement systems have unfunded liabilities of $500 million, which under the plan assumptions and test scenarios grow to $750 million and $1.0 billion respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $55 million and $80 million, respectively.

Houston retirement systems have unfunded liabilities of $2.4 billion, which under the plan assumptions and test scenarios grow to $3.7 billion and $4.9 billion, respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase; the plan assumption and test scenarios require increases of $350 million and $450 million, respectively.

Source Agencies: 338 Pension Review Board, 325 Fire Fighters' Pension Commissioner, 304 Comptroller of Public Accounts, 327 Employees Retirement System

LBB Staff: JK, JB, JO, RR, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 14, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: HJR54 by King (Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.), **As Engrossed**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound; however, it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems, and the Statewide Emergency Services Personnel Retirement Fund. Under the resolution, vested accrued benefits could not be reduced or impaired. If fund balances were insufficient to pay benefits, costs would be the joint responsibility of the political subdivision which is the plan sponsor, and the active members of the plan. If a political subdivision has an election in May 2004 and the majority votes to opt out of this requirement, their retirement system would not have this protection and they would have no fiscal implication from the constitutional amendment.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way.

Due to their size, major municipal plans would have the majority of any fiscal implications, and 13 of the largest are used for examples in this analysis. Similar fiscal implications are anticipated to occur for other plans and their sponsors. Some plans have provisions which which reduce benefits if fund balances are insufficient to pay benefits; sponsors for these plans would have a direct fiscal impact from the constitutional amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would remove the ability of cities to reduce this obligation for vested benefits through plan design changes. Vested benefits represent roughly 95 percent of the AAL for all but one of the reviewed systems. Being unable to impair income benefits would mean recent plan design changes such as lower retirement eligibility, Deferred Retirement Option Plans (DROPs), and automatic post retirement benefit increases greater than inflation can't be changed for vested employees. Allowable changes for them would be reducing or ending all future benefit accruals, though these would not reduce current obligations.

For reviewed plans, we estimate (market-value) liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) In addition to projecting the impact of meeting plan assumptions of 8 or 8.5 percent over the next five years, we project the impact of earning 4.5 percent investment return over the next five years as a likely "test" scenario. Projected returns are below historic averages due to low inflation, historically low interest rates for Treasury bills and other fixed income, and reduced expectations for the stock market in the short term. If these lower returns come to pass, plans may need to revisit economic assumption changes made in the 1990s, which would increase liabilities and costs. A combination of a six percent return and a modest economic assumption change is anticipated to have effects similar to the test scenario. Due to deferred recognition of asset losses, we assume for the five-year period no increases in contribution rates for unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected.

Contribution increases shown are only those attributable to unfunded liabilities and current normal cost shortfalls, and are based on paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

The proposal states any obligation is the joint responsibility of the plan sponsor and the active members; to the extent plan members pay increased contributions this would lower the impact on plan sponsors. For all but two of the plans, current unfunded liabilities per active member range from $100,000 to $240,000; they range from $140,000 to $360,000 in 2007 under the plan assumptions and from $190,000 to $550,000 under the test scenario.

Plans analyzed include municipal employees, firefighters, and police. For San Antonio, only the combined firefighter and police plan is included. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million, which under the plan assumptions and test scenarios grow to $950 million and $1.3 billion, respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase; the plan assumption and test scenarios require increases of $70 million and $90 million, respectively.

Dallas retirement systems have unfunded liabilities of $1.9 billion, which under the plan assumptions and test scenarios grow to $2.9 billion and $3.7 billion, respectively. Current contributions are $110 million; realizing 2002 losses requires a $150 million increase; the plan assumption and test scenarios require increases of $240 million and $310 million, respectively.

El Paso retirement systems have unfunded liabilities of $440 million, which under the plan assumptions and test scenarios grow to $650 million and $820 million, respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $50 million and $65 million, respectively.

Fort Worth retirement systems have unfunded liabilities of $500 million, which under the plan assumptions and test scenarios grow to $750 million and $1.0 billion respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $55 million and $80 million, respectively.

Houston retirement systems have unfunded liabilities of $2.4 billion, which under the plan assumptions and test scenarios grow to $3.7 billion and $4.9 billion, respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase; the plan assumption and test scenarios require increases of $350 million and $450 million, respectively.

San Antonio retirement systems have unfunded liabilities of $500 million, which under the plan assumptions and test scenarios grow to $700 million and $950 million, respectively. Contributions are $45 million now; realizing 2002 losses requires a $25 million increase; the plan assumption and test scenarios require increases of $40 million and $60 million, respectively.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board, 304 Comptroller of Public Accounts, 327 Employees Retirement System

LBB Staff: JK, JB, JO, RR, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

May 26, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.), **As Engrossed**

CSHJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the resolution, accrued vested benefits could not be reduced or impaired. If fund balances were insufficient to pay benefits, costs would be the responsibility of the political subdivision which is the plan sponsor, and the active members.

If, for affected systems, the current assumptions prove to be reasonably accurate for the long term, and unfunded actuarial accrued liabilities do not increase from values in past valuations, the resolution may have only minimal actuarial impact. If circumstances suggest changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to make even minor adjustments to plan design or retirement eligibility for members who were vested. For the majority of plans, 95 percent of the actuarial accrued liability (AAL) would be directly protected by the amendment.

The stock market losses of the past few years, combined with relatively weak economic forecasts, low yields on fixed income, and low inflation, all suggest changed economic circumstances. A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If plans make their assumed interest rates on market values of assets, and other experience is as expected, their actuarial funding ratios, based on a smoothed value of assets, will quickly approach these market based funding ratios. In fact, if future experience exactly follows assumptions, the actuarial funding ratios will become worse than these market ratios due both to deferred contribution increases, and not paying interest on market based unfunded liabilities. It is estimated that if these plans' experience follows assumptions over the next five years, their market based unfunded liabilities will increase by roughly 50 percent.

If interest returns continue to fall below assumptions for the next few years, the plans' actuarial health will further deteriorate. Under a test scenario of 5 years at 4.5 percent interest return (with increases in contributions deferred till after the 5 year period), the funding ratios are estimated to range from 0.41 to 0.63. It is anticipated that similar figures will occur if plans achieve a more modest return of say 6 percent, but make some adjustments to their economic assumptions- many plans made multiple assumption changes in the mid to late 1990s, a period of unusually high real returns. More favorable experience is possible, but it is not certain, and modest returns appear to be likely given current economic circumstances.

The proposal would limit the ability of plans to make benefit changes to assist in improving the actuarial health of the fund. Some plans have statutory provisions which reduce benefits if fund balances are insufficient to pay benefits; these provisions would no longer apply. Many plans are already facing relatively poor actuarial health, especially on the basis of funding ratios. The lowered flexibility under the proposal may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plans to pay benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

May 25, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: HJR54 by King (
Proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.
), **Committee Report 2nd House, Substituted**

CSHJR 54 would apply to retirement systems that are not statewide systems, except a fire and police plan in San Antonio would be excluded. Under the resolution, accrued benefits could not be reduced or impaired for retirees and active members eligible to retire prior to any proposed change in benefits. If fund balances were insufficient to pay benefits, costs would be the responsibility of the political subdivision which is the plan sponsor.

If, for affected systems, the current assumptions prove to be reasonably accurate for the long term, and unfunded actuarial accrued liabilities do not increase from values in past valuations, the resolution may have only minimal actuarial impact. If circumstances suggest changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to make even minor adjustments to plan design that resulted in any loss of accrued benefits for the protected members, i.e. retirees and those eligible for regular or early retirement.

For some plans, 80 percent of the actuarial accrued liability (AAL) would be directly protected by the amendment, for many others somewhat less than 70 percent of the AAL would be directly protected. The protected liability includes liability for retirees, active members eligible to retire, and for our calculation, liability for those eligible to retire in the next two years, since for these plans any reductions would be unlikely take effect prior to the end of the next legislative session. Plans which have generous early retirement eligibility, especially fire and police plans, would be more greatly affected; some allow early retirement at age 45 with 5 years of service. If such a plan reduced benefits for all non-protected members by a fairly significant amount, say 25 percent, under current and projected funding ratios below they may only reduce their unfunded liabilities by an eighth. Other plans with less generous early retirement provisions would be able to have a somewhat greater impact on their unfunded liabilities by reducing benefits for non-protected members. The best funded plans would be able to have a somewhat greater impact on unfunded liabilities with benefit changes, while the least well funded plans would have less ability to have an impact on unfunded liabilites with benefit changes.

The stock market losses of the past few years, combined with relatively weak economic forecasts, low yields on fixed income, and low inflation, all suggest changed economic circumstances. A sampling of 12 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If plans make their assumed interest rates on market values of assets, and other experience is as expected, their actuarial funding ratios, based on a smoothed value of assets, will quickly approach these market based funding ratios. In fact, if future experience exactly follows assumptions, the actuarial funding ratios will become worse than these market ratios due both to deferred contribution increases, and not paying interest on market based unfunded liabilities. It is estimated that if these plans' experience follows assumptions over the next five years, their market based unfunded liabilities will increase by roughly 50 percent.

If interest returns continue to fall below assumptions for the next few years, the plans' actuarial health will further deteriorate. Under a test scenario of 5 years at 4.5 percent interest return (with increases in contributions deferred till after the 5 year period), the funding ratios are estimated to range from 0.41 to 0.63. It is anticipated that similar figures will occur if plans achieve a more modest return of say 6 percent, but make some adjustments to their economic assumptions- many plans made multiple assumption changes in the mid to late 1990s, a period of unusually high real returns. More favorable experience is possible, but it is not certain, and modest returns appear to be likely given current economic circumstances.

The proposal would limit the ability of plans to make benefit changes to assist in improving the actuarial health of the fund and would end their ability to increase member contributions. Some plans have statutory provisions which reduce benefits if fund balances are insufficient to pay benefits; these provisions would no longer apply. Many plans are already facing relatively poor actuarial health, especially on the basis of funding ratios. The lowered flexibility under the proposal may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plans to pay benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems, and the Statewide Emergency Services Personnel Retirement Fund. Under the resolution, accrued benefits could not be reduced or impaired. If fund balances were insufficient to pay benefits, all costs would be the responsibility of the political subdivision which is the plan sponsor.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way. The proposed constitutional amendment would only allow increased plan sponsor contributions; based on current asset values these would need to be doubled and might increase more. Plans not receiving increased contributions would eventually become "pay as you go" and for some, costs could be more than 100 percent of payroll.

Due to their size, major municipal plans would have the majority of any fiscal implications, and the 13 largest are used for examples in this analysis. Additional similar fiscal implications would occur for other plans and their sponsors.

Certain plans have provisions which reduce plan sponsor liabilities for cost increases; sponsors for these plans would have a direct fiscal impact from the constitutional amendment. Some plans have statutory provisions which reduce benefits if fund balances are insufficient to pay benefits; other plans have agreements or provisions to increase member contributions when contribution increases arise; agreements would clearly be superceded by the amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is

the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would remove the ability of cities to reduce this obligation through plan design changes. Being unable to impair benefits would mean recent plan design changes such as lower retirement eligibility, Deferred Retirement Option Plans (DROPs), and automatic post retirement benefit increases greater than inflation can't be changed. Allowable changes would be reducing or ending all future benefit accruals, though these would not reduce current obligations. Retiree health obligations may implicitly be affected.

For reviewed plans, we estimate liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) We project the impact of earning 4.5 percent investment return over the next five years as a likely mid-level "test" scenario due to low inflation, historically low interest rates for Treasury bills, and reduced expectations for the stock market in the short term. Due to shortfalls in municipal budgets, we assume no increases in contribution rates above current levels are made to pay off unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected. Contribution increases due to payroll growth above the amount described above are excluded from this analysis, but would add to city costs. A low assumption where plans earn no interest over the next five years roughly doubles liability and contribution increases as compared with the test scenario. The scenario that systems earn their assumed investment rates for five years but receive no contribution increases still results in unfunded liabilities growing by roughly 50 percent from current amounts as do contribution increases.

Contribution increase estimates are based on the normal cost plus paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. We assume no plans increase benefits above current levels, though many statutory plans can do so without changing their statutes. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

Plans analyzed include municipal employees, firefighters, and police. For San Antonio, only the combined firefighter and police plan is included. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million which increase to $1.1 billion in 2007 under the test scenario; this translates into $2,600 per household or $4,350 per household respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase, and the test scenario has an $80 million increase.

Dallas retirement systems have unfunded liabilities of $1.9 billion which increase to $3.7 billion in 2007 under the test scenario; this translates into $4,450 per household or $8,600 per household respectively. Contributions are $110 million now; realizing 2002 losses requires a $155 million increase, and the test scenario has a $310 million increase.

El Paso retirement systems have unfunded liabilities of $440 million which increase to $820 million in 2007 under the test scenario; this translates into $2,550 per household or $4,700 per household respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase, and the test scenario has a $65 million increase.

Fort Worth retirement systems have unfunded liabilities of $510 million which increase to $1.0 billion in 2007 under the test scenario; this translates into $2,590 per household or $5,240 per household respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase, and the test scenario has an $80 million increase.

Houston retirement systems have unfunded liabilities of $2.4 billion which increase to $4.9 billion in 2007 under the test scenario; this translates into $3,450 per household or $7,150 per household respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase, and the test scenario has a $450 million increase.

San Antonio retirement systems have unfunded liabilities of $2.4 billion which increase to $4.9 billion in 2007 under the test scenario; this translates into $3,450 per household or $7,150 per household respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase, and the test scenario has a $450 million increase.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board
LBB Staff: JK, JO, RR, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

March 23, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems. Some plans have provisions to increase member contributions when increased unfunded liabilities arise, these provisions would superceded by the amendment unless their employees agreed to increased contributions.

Unless investment returns are above their assumptions of 8 or 8.5 percent for the next few years, losses will be realized and plan sponsors will have to significantly increase contributions, or reduce benefits in some way.

Due to their size, major municipal plans would have the majority of any fiscal implications, and are used for examples in this fiscal note. Additional similar fiscal implications would occur for other plans and their sponsors.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board
LBB Staff: JK, JO, RR, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (
Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.
), **Committee Report 1st House, Substituted**

CSHJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, accrued benefits could not be reduced or impaired.

If the systems affected did not need to change their assumptions and their current assumptions were reasonably accurate for the long term, the resolution may have no actuarial impact. If circumstances suggested changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to increase retirement age, or even make minor adjustments to plan design that resulted in any loss of benefits.

A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If interest returns are below assumptions for the next few years, the plans' actuarial health will further deteriorate; with 5 years of 4.5 percent interest return with no increases above current contributions the funding ratios are estimated to range from 0.41 to 0.63. Using market fund values, on a level dollar basis, employer contributions 3 times greater than current contributions are already necessary to keep some plans from deteriorating further.

The proposal would limit the ability of plans to increase member contributions or make benefit changes to assist in improving the actuarial health of the fund. It would supercede existing arrangements to have members partially contribute towards the cost of emerging liabilities. This lack of flexibility may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plan to pay benefits, though the political subdivision that was the plan sponsor would be required to do so. In effect, the plans could become "pay as you go".

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

March 24, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

HJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems.

If the systems affected did not need to change their assumptions and their current assumptions were reasonably accurate for the long term, the resolution may have no actuarial impact. If circumstances suggested changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to increase retirement age, or even make minor adjustments to plan design that resulted in any loss of benefits.

A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If interest returns are below assumptions for the next few years, the plans' actuarial health will further deteriorate; with 5 years of 4.5 percent interest at current contributions the funding ratios are estimated to range from 0.41 to 0.63. Using market fund values, on a level dollar basis, employer contributions 3 times greater than current contributions are already necessary to keep some plans from deteriorating further.

The proposal would limit the ability of the plans to increase member contributions or make benefit changes to assist in improving the actuarial health of the fund. It would supercede existing arrangements to have members partially contribute towards the cost of emerging liabilities, unless the employees agreed to continue them. This lack of flexibility may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plan to pay benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

REQUEST FOR LOCAL & UNCONTESTED CALENDAR PLACEMENT

SENATOR CHRIS HARRIS, CHAIRMAN
SENATE COMMITTEE ON ADMINISTRATION

Notice is hereby given that HJR 54, by King / Bumer,
(Bill No.) (Author/Sponsor)

was heard by the Committee on State Affairs on 5-22, 2003,

and reported out with the recommendation that it be placed on the Local and Uncontested Calendar.

[signature]
(Clerk of the reporting committee)

IMPORTANT: A COPY OF THIS FORM MUST BE ATTACHED TO A **COMMITTEE PRINTED VERSION** OF THE BILL OR RESOLUTION AND SHOULD BE DELIVERED TO THE ADMINISTRATION COMMITTEE OFFICE, E1.714. DEADLINES FOR SUBMITTING BILLS AND RESOLUTIONS WILL BE ANNOUNCED ON A REGULAR BASIS.

Paper clip the original to the bill; retain pink copy for committee files; deliver yellow copy to bill author/sponsor.

ADOPTED

MAY 28 2003

Secretary of the Senate

~~By: Brimer~~ ~~H.J.R. No. 54~~

~~Substitute the following for H.J.R. No. 54:~~

~~By:~~ ~~C.S.H.J.R. No. 54~~

A JOINT RESOLUTION

proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Article XVI, Texas Constitution, is amended by adding Section 66 to read as follows:

Sec. 66. PROTECTED BENEFITS UNDER CERTAIN PUBLIC RETIREMENT SYSTEMS. (a) This section applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees.

(b) This section does not apply to a public retirement system that provides service and disability retirement benefits and death benefits to firefighters and police officers employed by the City of San Antonio.

(c) This section does not apply to benefits that are:

(1) health benefits;

(2) life insurance benefits; or

(3) disability benefits that a retirement system determines are no longer payable under the terms of the retirement system as those terms existed on the date the retirement system began paying the disability benefits.

(d) On or after the effective date of this section, a change in service or disability retirement benefits or death benefits of a

retirement system may not reduce or otherwise impair benefits accrued by a person if the person:

(1) could have terminated employment or has terminated employment before the effective date of the change; and

(2) would have been eligible for those benefits, without accumulating additional service under the retirement system, on any date on or after the effective date of the change had the change not occurred.

(e) Benefits granted to a retiree or other annuitant before the effective date of this section and in effect on that date may not be reduced or otherwise impaired.

(f) The political subdivision or subdivisions and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under this section are not reduced or otherwise impaired.

(g) This section does not create a liability or an obligation to a retirement system for a member of the retirement system other than the payment by active members of a required contribution or a future required contribution to the retirement system.

(h) A retirement system described by Subsection (a) and the political subdivision or subdivisions that finance benefits under the retirement system are exempt from the application of this section if:

(1) the political subdivision or subdivisions hold an election on the date in May 2004 that political subdivisions may use for the election of their officers;

(2) the majority of the voters of a political subdivision voting at the election favor exempting the political subdivision and the retirement system from the application of this section; and

(3) the exemption is the only issue relating to the funding and benefits of the retirement system that is presented to the voters at the election.

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held September 13, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment providing that certain benefits under certain local public retirement systems may not be reduced or impaired."

SENATE AMENDMENTS

2nd Printing

By: King, Pena, Jones of Bexar, Capelo, Swinford

H.J.R. No. 54

A JOINT RESOLUTION

proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 67, Article XVI, Texas Constitution, is amended by adding Subsections (h) and (i) to read as follows:

(h) This subsection applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees and to a statewide public retirement system that provides service and disability retirement benefits and death benefits to volunteer emergency services personnel. Income benefits under a retirement system to which this subsection applies may not be reduced or impaired for service performed before the effective date of any change in the benefit structure, and benefits granted to any retiree or other annuitant before the effective date of this subsection and in effect on that effective date may not be reduced or impaired. The obligation to not reduce or impair benefits is the joint responsibility of the active members of a retirement system and the state or the political subdivision or subdivisions that finance the retirement system. This subsection does not apply to a member of a retirement system who has not qualified to receive benefits under the requirements of the retirement system.

(i) A political subdivision and a public retirement system

described by Subsection (h) are exempt from the application of Subsection (h) if the political subdivision holds an election on the date in May 2004 that political subdivisions are required to use for the election of their officers and the majority of the voters of the political subdivision voting at the election favor exempting the political subdivision and the public retirement system from the application of Subsection (h).

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held November 4, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment to guarantee benefits earned in local public retirement systems and certain statewide public retirement systems."

ADOPTED

MAY 2 8 2003

Secretary of the Senate

By: Brimer

H.J.R. No. 54

Substitute the following for H.J.R. No. 54:

By:

C.S.H.J.R. No. 54

A JOINT RESOLUTION

proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Article XVI, Texas Constitution, is amended by adding Section 66 to read as follows:

Sec. 66. PROTECTED BENEFITS UNDER CERTAIN PUBLIC RETIREMENT SYSTEMS. (a) This section applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees.

(b) This section does not apply to a public retirement system that provides service and disability retirement benefits and death benefits to firefighters and police officers employed by the City of San Antonio.

(c) This section does not apply to benefits that are:

(1) health benefits;

(2) life insurance benefits; or

(3) disability benefits that a retirement system determines are no longer payable under the terms of the retirement system as those terms existed on the date the retirement system began paying the disability benefits.

(d) On or after the effective date of this section, a change in service or disability retirement benefits or death benefits of a

retirement system may not reduce or otherwise impair benefits accrued by a person if the person:

(1) could have terminated employment or has terminated employment before the effective date of the change; and

(2) would have been eligible for those benefits, without accumulating additional service under the retirement system, on any date on or after the effective date of the change had the change not occurred.

(e) Benefits granted to a retiree or other annuitant before the effective date of this section and in effect on that date may not be reduced or otherwise impaired.

(f) The political subdivision or subdivisions and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under this section are not reduced or otherwise impaired.

(g) This section does not create a liability or an obligation to a retirement system for a member of the retirement system other than the payment by active members of a required contribution or a future required contribution to the retirement system.

(h) A retirement system described by Subsection (a) and the political subdivision or subdivisions that finance benefits under the retirement system are exempt from the application of this section if:

(1) the political subdivision or subdivisions hold an election on the date in May 2004 that political subdivisions may use for the election of their officers;

(2) the majority of the voters of a political subdivision voting at the election favor exempting the political subdivision and the retirement system from the application of this section; and

(3) the exemption is the only issue relating to the funding and benefits of the retirement system that is presented to the voters at the election.

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held September 13, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment providing that certain benefits under certain local public retirement systems may not be reduced or impaired."

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 24, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.), **Committee Report 2nd House, Substituted**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems. Under the resolution, accrued benefits could not be reduced or impaired for retirees and active members eligible to retire prior to any proposed change in benefits. If fund balances were insufficient to pay benefits, costs would be the responsibility of the political subdivision which is the plan sponsor. If a political subdivision has an election in May 2004 and the majority votes to opt out of this requirement, their retirement system would not have this protection and they would have no fiscal implication from the constitutional amendment.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way. The proposed constitutional amendment would not allow increased contributions from active members to assist in making up any shortfall.

Due to their size, major municipal plans would have the majority of any fiscal implications, and 12 of the largest are used for examples in this analysis. Similar fiscal implications are anticipated to occur for other plans and their sponsors, except the city of San Antonio which is generally exempted. Some plans have provisions which reduce benefits if fund balances are insufficient to pay benefits; sponsors for these plans would have a direct fiscal impact from the constitutional amendment. Other plan sponsors, including El Paso and Dallas, have agreements with their plans to increase member contributions when actuarially required contribution increases arise; these agreements would be negated by the amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would greatly reduce the ability of cities to reduce this obligation through plan design changes. We estimate that for some plans, 80 percent of the liability (AAL) would be directly protected by the amendment, for others somewhat less than 70 percent of the AAL would be directly protected. The protected liability includes liability for retirees, active members eligible to retire, and for our calculation, liability for those eligible to retire in the next two years, since for these plans any reductions would be unlikely take effect prior to the end of the next legislative session. Plans which have generous early retirement eligibility, especially fire and police plans, would be more greatly affected; some allow early retirement at age 45 with 5 years of service. If such a plan reduced benefits for all non-protected members by a fairly significant amount, say 25 percent, under the scenarios below they would only reduce their unfunded liabilities and additional costs by an eighth. Other plans would be able to have a somewhat greater impact on their unfunded liabilities by reducing benefits for non-protected members. The best funded plans would be able to have a somewhat greater impact on unfunded liabilities with benefit changes, while the least well funded plans would have less ability to have an impact on unfunded liabilities with benefit changes.

Being unable to impair benefits would mean recent plan design changes such as automatic post retirement benefit increases greater than inflation can't be changed for protected members. Also, increased eligibility requirements for Deferred Retirement Option Plans (DROPs) could never be added for those eligible to retire, even those only eligible for early retirement. Allowable changes for them would be reducing or ending all future benefit accruals, though these would not reduce current obligations.

For reviewed plans, we estimate (market-value) liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) In addition to projecting the impact of meeting plan assumptions of 8 or 8.5 percent over the next five years, we project the impact of earning 4.5 percent investment return over the next five years as a likely "test" scenario. Projected returns are below historic averages due to low inflation, historically low interest rates for Treasury bills and other fixed income, and reduced expectations for the stock market in the short term. If these lower returns come to pass, plans may need to revisit economic assumption changes made in the 1990s, which would increase liabilities and costs. A combination of a six percent return and a modest economic assumption change is anticipated to have effects similar to the test scenario. Due to deferred recognition of asset losses, we assume for the five-year period no increases in contribution rates for unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected.

Contribution increases shown are only those attributable to unfunded liabilities and current normal cost shortfalls, and are based on paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

Plans analyzed include municipal employees, firefighters, and police. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million, which under the plan assumptions and test scenarios grow to $950 million and $1.3 billion, respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase; the plan assumption and test scenarios require increases of $70 million and $90 million, respectively.

Dallas retirement systems have unfunded liabilities of $1.9 billion, which under the plan assumptions and test scenarios grow to $2.9 billion and $3.7 billion, respectively. Current contributions are $110 million; realizing 2002 losses requires a $150 million increase; the plan assumption and test scenarios require increases of $240 million and $310 million, respectively.

El Paso retirement systems have unfunded liabilities of $440 million, which under the plan assumptions and test scenarios grow to $650 million and $820 million, respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $50 million and $65 million, respectively.

Fort Worth retirement systems have unfunded liabilities of $500 million, which under the plan assumptions and test scenarios grow to $750 million and $1.0 billion respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $55 million and $80 million, respectively.

Houston retirement systems have unfunded liabilities of $2.4 billion, which under the plan assumptions and test scenarios grow to $3.7 billion and $4.9 billion, respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase; the plan assumption and test scenarios require increases of $350 million and $450 million, respectively.

Source Agencies: 338 Pension Review Board, 325 Fire Fighters' Pension Commissioner, 304 Comptroller of Public Accounts, 327 Employees Retirement System

LBB Staff: JK, JB, JO, RR, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 14, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.), **As Engrossed**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound; however, it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems, and the Statewide Emergency Services Personnel Retirement Fund. Under the resolution, vested accrued benefits could not be reduced or impaired. If fund balances were insufficient to pay benefits, costs would be the joint responsibility of the political subdivision which is the plan sponsor, and the active members of the plan. If a political subdivision has an election in May 2004 and the majority votes to opt out of this requirement, their retirement system would not have this protection and they would have no fiscal implication from the constitutional amendment.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way.

Due to their size, major municipal plans would have the majority of any fiscal implications, and 13 of the largest are used for examples in this analysis. Similar fiscal implications are anticipated to occur for other plans and their sponsors. Some plans have provisions which which reduce benefits if fund balances are insufficient to pay benefits; sponsors for these plans would have a direct fiscal impact from the constitutional amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would remove the ability of cities to reduce this obligation for vested benefits through plan design changes. Vested benefits represent roughly 95 percent of the AAL for all but one of the reviewed systems. Being unable to impair income benefits would mean recent plan design changes such as lower retirement eligibility, Deferred Retirement Option Plans (DROPs), and automatic post retirement benefit increases greater than inflation can't be changed for vested employees. Allowable changes for them would be reducing or ending all future benefit accruals, though these would not reduce current obligations.

For reviewed plans, we estimate (market-value) liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) In addition to projecting the impact of meeting plan assumptions of 8 or 8.5 percent over the next five years, we project the impact of earning 4.5 percent investment return over the next five years as a likely "test" scenario. Projected returns are below historic averages due to low inflation, historically low interest rates for Treasury bills and other fixed income, and reduced expectations for the stock market in the short term. If these lower returns come to pass, plans may need to revisit economic assumption changes made in the 1990s, which would increase liabilities and costs. A combination of a six percent return and a modest economic assumption change is anticipated to have effects similar to the test scenario. Due to deferred recognition of asset losses, we assume for the five-year period no increases in contribution rates for unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected.

Contribution increases shown are only those attributable to unfunded liabilities and current normal cost shortfalls, and are based on paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

The proposal states any obligation is the joint responsibility of the plan sponsor and the active members; to the extent plan members pay increased contributions this would lower the impact on plan sponsors. For all but two of the plans, current unfunded liabilities per active member range from $100,000 to $240,000; they range from $140,000 to $360,000 in 2007 under the plan assumptions and from $190,000 to $550,000 under the test scenario.

Plans analyzed include municipal employees, firefighters, and police. For San Antonio, only the combined firefighter and police plan is included. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million, which under the plan assumptions and test scenarios grow to $950 million and $1.3 billion, respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase; the plan assumption and test scenarios require increases of $70 million and $90 million, respectively.

Dallas retirement systems have unfunded liabilities of $1.9 billion, which under the plan assumptions and test scenarios grow to $2.9 billion and $3.7 billion, respectively. Current contributions are $110 million; realizing 2002 losses requires a $150 million increase; the plan assumption and test scenarios require increases of $240 million and $310 million, respectively.

El Paso retirement systems have unfunded liabilities of $440 million, which under the plan assumptions and test scenarios grow to $650 million and $820 million, respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $50 million and $65 million, respectively.

Fort Worth retirement systems have unfunded liabilities of $500 million, which under the plan assumptions and test scenarios grow to $750 million and $1.0 billion respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $55 million and $80 million, respectively.

Houston retirement systems have unfunded liabilities of $2.4 billion, which under the plan assumptions and test scenarios grow to $3.7 billion and $4.9 billion, respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase; the plan assumption and test scenarios require increases of $350 million and $450 million, respectively.

San Antonio retirement systems have unfunded liabilities of $500 million, which under the plan assumptions and test scenarios grow to $700 million and $950 million, respectively. Contributions are $45 million now; realizing 2002 losses requires a $25 million increase; the plan assumption and test scenarios require increases of $40 million and $60 million, respectively.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board, 304 Comptroller of Public Accounts, 327 Employees Retirement System

LBB Staff: JK, JB, JO, RR, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems, and the Statewide Emergency Services Personnel Retirement Fund. Under the resolution, accrued benefits could not be reduced or impaired. If fund balances were insufficient to pay benefits, all costs would be the responsibility of the political subdivision which is the plan sponsor.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way. The proposed constitutional amendment would only allow increased plan sponsor contributions; based on current asset values these would need to be doubled and might increase more. Plans not receiving increased contributions would eventually become "pay as you go" and for some, costs could be more than 100 percent of payroll.

Due to their size, major municipal plans would have the majority of any fiscal implications, and the 13 largest are used for examples in this analysis. Additional similar fiscal implications would occur for other plans and their sponsors.

Certain plans have provisions which reduce plan sponsor liabilities for cost increases; sponsors for these plans would have a direct fiscal impact from the constitutional amendment. Some plans have statutory provisions which reduce benefits if fund balances are insufficient to pay benefits; other plans have agreements or provisions to increase member contributions when contribution increases arise; agreements would clearly be superceded by the amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is

the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would remove the ability of cities to reduce this obligation through plan design changes. Being unable to impair benefits would mean recent plan design changes such as lower retirement eligibility, Deferred Retirement Option Plans (DROPs), and automatic post retirement benefit increases greater than inflation can't be changed. Allowable changes would be reducing or ending all future benefit accruals, though these would not reduce current obligations. Retiree health obligations may implicitly be affected.

For reviewed plans, we estimate liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) We project the impact of earning 4.5 percent investment return over the next five years as a likely mid-level "test" scenario due to low inflation, historically low interest rates for Treasury bills, and reduced expectations for the stock market in the short term. Due to shortfalls in municipal budgets, we assume no increases in contribution rates above current levels are made to pay off unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected. Contribution increases due to payroll growth above the amount described above are excluded from this analysis, but would add to city costs. A low assumption where plans earn no interest over the next five years roughly doubles liability and contribution increases as compared with the test scenario. The scenario that systems earn their assumed investment rates for five years but receive no contribution increases still results in unfunded liabilities growing by roughly 50 percent from current amounts as do contribution increases.

Contribution increase estimates are based on the normal cost plus paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. We assume no plans increase benefits above current levels, though many statutory plans can do so without changing their statutes. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

Plans analyzed include municipal employees, firefighters, and police. For San Antonio, only the combined firefighter and police plan is included. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million which increase to $1.1 billion in 2007 under the test scenario; this translates into $2,600 per household or $4,350 per household respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase, and the test scenario has an $80 million increase.

Dallas retirement systems have unfunded liabilities of $1.9 billion which increase to $3.7 billion in 2007 under the test scenario; this translates into $4,450 per household or $8,600 per household respectively. Contributions are $110 million now; realizing 2002 losses requires a $155 million increase, and the test scenario has a $310 million increase.

El Paso retirement systems have unfunded liabilities of $440 million which increase to $820 million in 2007 under the test scenario; this translates into $2,550 per household or $4,700 per household respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase, and the test scenario has a $65 million increase.

Fort Worth retirement systems have unfunded liabilities of $510 million which increase to $1.0 billion in 2007 under the test scenario; this translates into $2,590 per household or $5,240 per household respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase, and the test scenario has an $80 million increase.

Houston retirement systems have unfunded liabilities of $2.4 billion which increase to $4.9 billion in 2007 under the test scenario; this translates into $3,450 per household or $7,150 per household respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase, and the test scenario has a $450 million increase.

San Antonio retirement systems have unfunded liabilities of $2.4 billion which increase to $4.9 billion in 2007 under the test scenario; this translates into $3,450 per household or $7,150 per household respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase, and the test scenario has a $450 million increase.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board
LBB Staff: JK, JO, RR, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

March 23, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Long term costs for paying for benefit payments to members of the Statewide Emergency Services Personnel Retirement Fund would likely increase. If this plan is actuarially unsound, the state is statutorily required to contribute one third of the local contributions to the plan, currently estimated to be $606,000 annually. Under the proposed constitutional amendment, if this amount was ever insufficient to pay the costs of benefits, the state would be constitionally bound to make up for any shortfalls. It is estimated that the system is actuarially unsound, however it is not anticipated that any required benefit payments would commence for quite some time. If the state contributes one third of local contributions, the present value of future benefit payments is currently estimated to be not significant, but that could change if experience does not meet plan assumptions.

Local Government Impact

The proposed constitutional amendment would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems. Some plans have provisions to increase member contributions when increased unfunded liabilities arise, these provisions would superceded by the amendment unless their employees agreed to increased contributions.

Unless investment returns are above their assumptions of 8 or 8.5 percent for the next few years, losses will be realized and plan sponsors will have to significantly increase contributions, or reduce benefits in some way.

Due to their size, major municipal plans would have the majority of any fiscal implications, and are used for examples in this fiscal note. Additional similar fiscal implications would occur for other plans and their sponsors.

Source Agencies: 325 Fire Fighters' Pension Commissioner, 338 Pension Review Board

LBB Staff: JK, JO, RR, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

May 26, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.), **As Engrossed**

CSHJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the resolution, accrued vested benefits could not be reduced or impaired. If fund balances were insufficient to pay benefits, costs would be the responsibility of the political subdivision which is the plan sponsor, and the active members.

If, for affected systems, the current assumptions prove to be reasonably accurate for the long term, and unfunded actuarial accrued liabilities do not increase from values in past valuations, the resolution may have only minimal actuarial impact. If circumstances suggest changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to make even minor adjustments to plan design or retirement eligibility for members who were vested. For the majority of plans, 95 percent of the actuarial accrued liability (AAL) would be directly protected by the amendment.

The stock market losses of the past few years, combined with relatively weak economic forecasts, low yields on fixed income, and low inflation, all suggest changed economic circumstances. A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If plans make their assumed interest rates on market values of assets, and other experience is as expected, their actuarial funding ratios, based on a smoothed value of assets, will quickly approach these market based funding ratios. In fact, if future experience exactly follows assumptions, the actuarial funding ratios will become worse than these market ratios due both to deferred contribution increases, and not paying interest on market based unfunded liabilities. It is estimated that if these plans' experience follows assumptions over the next five years, their market based unfunded liabilities will increase by roughly 50 percent.

If interest returns continue to fall below assumptions for the next few years, the plans' actuarial health will further deteriorate. Under a test scenario of 5 years at 4.5 percent interest return (with increases in contributions deferred till after the 5 year period), the funding ratios are estimated to range from 0.41 to 0.63. It is anticipated that similar figures will occur if plans achieve a more modest return of say 6 percent, but make some adjustments to their economic assumptions- many plans made multiple assumption changes in the mid to late 1990s, a period of unusually high real returns. More favorable experience is possible, but it is not certain, and modest returns appear to be likely given current economic circumstances.

The proposal would limit the ability of plans to make benefit changes to assist in improving the actuarial health of the fund. Some plans have statutory provisions which reduce benefits if fund balances are insufficient to pay benefits; these provisions would no longer apply. Many plans are already facing relatively poor actuarial health, especially on the basis of funding ratios. The lowered flexibility under the proposal may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plans to pay benefits.

Source Agencies: 338 Pension Review Board

LBB Staff: JK, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

May 25, 2003

TO: Honorable Bill Ratliff, Chair, Senate Committee on State Affairs

FROM: John Keel, Director, Legislative Budget Board

IN RE: HJR54 by King (
Proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.
), **Committee Report 2nd House, Substituted**

CSHJR 54 would apply to retirement systems that are not statewide systems, except a fire and police plan in San Antonio would be excluded. Under the resolution, accrued benefits could not be reduced or impaired for retirees and active members eligible to retire prior to any proposed change in benefits. If fund balances were insufficient to pay benefits, costs would be the responsibility of the political subdivision which is the plan sponsor.

If, for affected systems, the current assumptions prove to be reasonably accurate for the long term, and unfunded actuarial accrued liabilities do not increase from values in past valuations, the resolution may have only minimal actuarial impact. If circumstances suggest changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to make even minor adjustments to plan design that resulted in any loss of accrued benefits for the protected members, i.e. retirees and those eligible for regular or early retirement.

For some plans, 80 percent of the actuarial accrued liability (AAL) would be directly protected by the amendment, for many others somewhat less than 70 percent of the AAL would be directly protected. The protected liability includes liability for retirees, active members eligible to retire, and for our calculation, liability for those eligible to retire in the next two years, since for these plans any reductions would be unlikely take effect prior to the end of the next legislative session. Plans which have generous early retirement eligibility, especially fire and police plans, would be more greatly affected; some allow early retirement at age 45 with 5 years of service. If such a plan reduced benefits for all non-protected members by a fairly significant amount, say 25 percent, under current and projected funding ratios below they may only reduce their unfunded liabilities by an eighth. Other plans with less generous early retirement provisions would be able to have a somewhat greater impact on their unfunded liabilities by reducing benefits for non-protected members. The best funded plans would be able to have a somewhat greater impact on unfunded liabilities with benefit changes, while the least well funded plans would have less ability to have an impact on unfunded liabilites with benefit changes.

The stock market losses of the past few years, combined with relatively weak economic forecasts, low yields on fixed income, and low inflation, all suggest changed economic circumstances. A sampling of 12 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If plans make their assumed interest rates on market values of assets, and other experience is as expected, their actuarial funding ratios, based on a smoothed value of assets, will quickly approach these market based funding ratios. In fact, if future experience exactly follows assumptions, the actuarial funding ratios will become worse than these market ratios due both to deferred contribution increases, and not paying interest on market based unfunded liabilities. It is estimated that if these plans' experience follows assumptions over the next five years, their market based unfunded liabilities will increase by roughly 50 percent.

If interest returns continue to fall below assumptions for the next few years, the plans' actuarial health will further deteriorate. Under a test scenario of 5 years at 4.5 percent interest return (with increases in contributions deferred till after the 5 year period), the funding ratios are estimated to range from 0.41 to 0.63. It is anticipated that similar figures will occur if plans achieve a more modest return of say 6 percent, but make some adjustments to their economic assumptions- many plans made multiple assumption changes in the mid to late 1990s, a period of unusually high real returns. More favorable experience is possible, but it is not certain, and modest returns appear to be likely given current economic circumstances.

The proposal would limit the ability of plans to make benefit changes to assist in improving the actuarial health of the fund and would end their ability to increase member contributions. Some plans have statutory provisions which reduce benefits if fund balances are insufficient to pay benefits; these provisions would no longer apply. Many plans are already facing relatively poor actuarial health, especially on the basis of funding ratios. The lowered flexibility under the proposal may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plans to pay benefits.

Source Agencies: 338 Pension Review Board

LBB Staff: JK, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

April 2, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: HJR54 by King (
Proposing a constitutional amendment providing that benefits in certain public retirement systems may not be reduced or impaired.
), **Committee Report 1st House, Substituted**

CSHJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, accrued benefits could not be reduced or impaired.

If the systems affected did not need to change their assumptions and their current assumptions were reasonably accurate for the long term, the resolution may have no actuarial impact. If circumstances suggested changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to increase retirement age, or even make minor adjustments to plan design that resulted in any loss of benefits.

A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If interest returns are below assumptions for the next few years, the plans' actuarial health will further deteriorate; with 5 years of 4.5 percent interest return with no increases above current contributions the funding ratios are estimated to range from 0.41 to 0.63. Using market fund values, on a level dollar basis, employer contributions 3 times greater than current contributions are already necessary to keep some plans from deteriorating further.

The proposal would limit the ability of plans to increase member contributions or make benefit changes to assist in improving the actuarial health of the fund. It would supercede existing arrangements to have members partially contribute towards the cost of emerging liabilities. This lack of flexibility may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plan to pay benefits, though the political subdivision that was the plan sponsor would be required to do so. In effect, the plans could become "pay as you go".

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

ACTUARIAL IMPACT STATEMENT

78TH LEGISLATIVE REGULAR SESSION

March 24, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.), **As Introduced**

HJR 54 would apply to retirement systems that are not statewide systems, and the Statewide Emergency Services Retirement Fund. Under the proposal, membership in an affected retirement system would become a contractual relationship, and accrued benefits could not be reduced or impaired. It is unknown whether the clause stating that membership would become a contractual relationship would also inhibit the reduction or impairment of all future benefit accruals for all members of these retirement systems.

If the systems affected did not need to change their assumptions and their current assumptions were reasonably accurate for the long term, the resolution may have no actuarial impact. If circumstances suggested changes in assumptions were necessary, especially economic assumptions, plan costs and unfunded liabilities might rise significantly. Currently, plans may adjust their benefits as experience changes. Plans would no longer be able to increase retirement age, or even make minor adjustments to plan design that resulted in any loss of benefits.

A sampling of 13 major municipal plans affected by the resolution reveals that on a market basis, at the end of 2002, not a single plan has a funding ratio (assets/liabilities times 100) over 80 (a standard for a reasonably well funded plan), most are in the 60s and two have funding ratios in the low 50s. If interest returns are below assumptions for the next few years, the plans' actuarial health will further deteriorate; with 5 years of 4.5 percent interest at current contributions the funding ratios are estimated to range from 0.41 to 0.63. Using market fund values, on a level dollar basis, employer contributions 3 times greater than current contributions are already necessary to keep some plans from deteriorating further.

The proposal would limit the ability of the plans to increase member contributions or make benefit changes to assist in improving the actuarial health of the fund. It would supercede existing arrangements to have members partially contribute towards the cost of emerging liabilities, unless the employees agreed to continue them. This lack of flexibility may lead some plans towards significantly poorer actuarial health than they would otherwise face. In the long run this may affect the ability of the plan to pay benefits.

Source Agencies: 338 Pension Review Board
LBB Staff: JK, WM

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 29, 2003

TO: Honorable Tom Craddick, Speaker of the House, House of Representatives

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems. Under the resolution, accrued benefits could not be reduced or impaired for retirees and active members eligible to retire prior to any proposed change in benefits. If fund balances were insufficient to pay benefits, costs would be the responsibility of the political subdivision which is the plan sponsor. If a political subdivision has an election in May 2004 and the majority votes to opt out of this requirement, their retirement system would not have this protection and they would have no fiscal implication from the constitutional amendment.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way. The proposed constitutional amendment would not allow increased contributions from active members to assist in making up any shortfall.

Due to their size, major municipal plans would have the majority of any fiscal implications, and 12 of the largest are used for examples in this analysis. Similar fiscal implications are anticipated to occur for other plans and their sponsors, except the city of San Antonio which is generally exempted. Some plans have provisions which reduce benefits if fund balances are insufficient to pay benefits; sponsors for these plans would have a direct fiscal impact from the constitutional amendment. Other plan sponsors, including El Paso and Dallas, have agreements with their plans to increase member contributions when actuarially required contribution increases arise; these agreements would be negated by the amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would greatly reduce the ability of cities to reduce this obligation through plan design changes. We estimate that for some plans, 80 percent of the liability (AAL) would be directly protected by the amendment, for others somewhat less than 70 percent of the AAL would be directly protected. The protected liability includes liability for retirees, active members eligible to retire, and for our calculation, liability for those eligible to retire in the next two years, since for these plans any reductions would be unlikely take effect prior to the end of the next legislative session. Plans which have generous early retirement eligibility, especially fire and police plans, would be more greatly affected; some allow early retirement at age 45 with 5 years of service. If such a plan reduced benefits

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 29, 2003

TO: Honorable Tom Craddick, Speaker of the House, House of Representatives

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HJR54** by King (Proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.), **As Passed 2nd House**

No significant fiscal implication to the State is anticipated, other than the cost of publication.

The cost to the state for publication of the resolution is $85,275.

Local Government Impact

The proposed constitutional amendment would apply to public retirement systems other than statewide systems. Under the resolution, accrued benefits could not be reduced or impaired for retirees and active members eligible to retire prior to any proposed change in benefits. If fund balances were insufficient to pay benefits, costs would be the responsibility of the political subdivision which is the plan sponsor. If a political subdivision has an election in May 2004 and the majority votes to opt out of this requirement, their retirement system would not have this protection and they would have no fiscal implication from the constitutional amendment.

Unless investment returns are well above plan assumptions of 8 or 8.5 percent for the next few years, losses will be realized and for plans to remain actuarially sound, overall contributions may have to be significantly increased, or benefits reduced in some way. The proposed constitutional amendment would not allow increased contributions from active members to assist in making up any shortfall.

Due to their size, major municipal plans would have the majority of any fiscal implications, and 12 of the largest are used for examples in this analysis. Similar fiscal implications are anticipated to occur for other plans and their sponsors, except the city of San Antonio which is generally exempted. Some plans have provisions which reduce benefits if fund balances are insufficient to pay benefits; sponsors for these plans would have a direct fiscal impact from the constitutional amendment. Other plan sponsors, including El Paso and Dallas, have agreements with their plans to increase member contributions when actuarially required contribution increases arise; these agreements would be negated by the amendment.

Pension plan costs come from either the "normal costs" which are paid by the plan sponsor for the benefit accruals in a given fiscal year, or from paying off unfunded liabilities. A plan's obligation for prior benefit accruals is the actuarial accrued liability (AAL). The AAL minus the value of assets is the unfunded liability of the system, though the AAL is the full obligation of a plan sponsor. The resolution would greatly reduce the ability of cities to reduce this obligation through plan design changes. We estimate that for some plans, 80 percent of the liability (AAL) would be directly protected by the amendment, for others somewhat less than 70 percent of the AAL would be directly protected. The protected liability includes liability for retirees, active members eligible to retire, and for our calculation, liability for those eligible to retire in the next two years, since for these plans any reductions would be unlikely take effect prior to the end of the next legislative session. Plans which have generous early retirement eligibility, especially fire and police plans, would be more greatly affected; some allow early retirement at age 45 with 5 years of service. If such a plan reduced benefits for all non-protected members by a fairly significant amount, say 25 percent, under the scenarios below they would only reduce their unfunded liabilities and additional costs by an eighth. Other plans would be able to have a somewhat greater impact on their unfunded liabilities by reducing benefits for non-protected members. The best funded plans would be able to have a somewhat greater impact on unfunded liabilities with benefit changes, while the least well funded plans would have less ability to have an impact on unfunded liabilities with benefit changes.

Being unable to impair benefits would mean recent plan design changes such as automatic post retirement benefit increases greater than inflation can't be changed for protected members. Also, increased eligibility requirements for Deferred Retirement Option Plans (DROPs) could never be added for those eligible to retire, even those only eligible for early retirement. Allowable changes for them would be reducing or ending all future benefit accruals, though these would not reduce current obligations.

For reviewed plans, we estimate (market-value) liabilities as of December 31, 2002 using the latest available actuarial valuation and market fund values as of December 31, 2002 (in some cases these are estimated.) In addition to projecting the impact of meeting plan assumptions of 8 or 8.5 percent over the next five years, we project the impact of earning 4.5 percent investment return over the next five years as a likely "test" scenario. Projected returns are below historic averages due to low inflation, historically low interest rates for Treasury bills and other fixed income, and reduced expectations for the stock market in the short term. If these lower returns come to pass, plans may need to revisit economic assumption changes made in the 1990s, which would increase liabilities and costs. A combination of a six percent return and a modest economic assumption change is anticipated to have effects similar to the test scenario. Due to deferred recognition of asset losses, we assume for the five-year period no increases in contribution rates for unfunded liabilities. We assume contribution increases made by cities due to payroll growth are partially offset by similar levels of benefit payments, liabilities grow at investment rate assumptions, and other experience is as expected.

Contribution increases shown are only those attributable to unfunded liabilities and current normal cost shortfalls, and are based on paying off the unfunded liability as a level dollar amount over 30 years. While public plans often use a different methodology which places greater payments in the future, this method is required of private pensions and has the same present value. Plan sponsors that immediately increase contributions to make their systems actuarially sound would face smaller future increases in contributions.

Plans analyzed include municipal employees, firefighters, and police. Liabilities and costs are aggregated by municipality to show the fiscal impact of maintaining current plan designs.

Austin retirement systems have unfunded liabilities of $650 million, which under the plan assumptions and test scenarios grow to $950 million and $1.3 billion, respectively. Contributions are $45 million now; realizing 2002 losses requires a $45 million increase; the plan assumption and test scenarios require increases of $70 million and $90 million, respectively.

Dallas retirement systems have unfunded liabilities of $1.9 billion, which under the plan assumptions and test scenarios grow to $2.9 billion and $3.7 billion, respectively. Current contributions are $110 million; realizing 2002 losses requires a $150 million increase; the plan assumption and test scenarios require increases of $240 million and $310 million, respectively.

El Paso retirement systems have unfunded liabilities of $440 million, which under the plan assumptions and test scenarios grow to $650 million and $820 million, respectively. Contributions are $20 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $50 million and $65 million, respectively.

Fort Worth retirement systems have unfunded liabilities of $500 million, which under the plan assumptions and test scenarios grow to $750 million and $1.0 billion respectively. Contributions are $25 million now; realizing 2002 losses requires a $35 million increase; the plan assumption and test scenarios require increases of $55 million and $80 million, respectively.

Houston retirement systems have unfunded liabilities of $2.4 billion, which under the plan assumptions and test scenarios grow to $3.7 billion and $4.9 billion, respectively. Contributions are $100 million now; realizing 2002 losses requires a $230 million increase; the plan assumption and test scenarios require increases of $350 million and $450 million, respectively.

Source Agencies: 338 Pension Review Board, 325 Fire Fighters' Pension Commissioner, 304 Comptroller of Public Accounts, 327 Employees Retirement System

LBB Staff: JK, WP, JB, JO, RR, WM

F

ENROLLED

H.J.R. No. 54

A JOINT RESOLUTION

proposing a constitutional amendment providing that certain benefits in certain public retirement systems may not be reduced or impaired.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Article XVI, Texas Constitution, is amended by adding Section 66 to read as follows:

Sec. 66. PROTECTED BENEFITS UNDER CERTAIN PUBLIC RETIREMENT SYSTEMS. (a) This section applies only to a public retirement system that is not a statewide system and that provides service and disability retirement benefits and death benefits to public officers and employees.

(b) This section does not apply to a public retirement system that provides service and disability retirement benefits and death benefits to firefighters and police officers employed by the City of San Antonio.

(c) This section does not apply to benefits that are:

(1) health benefits;

(2) life insurance benefits; or

(3) disability benefits that a retirement system determines are no longer payable under the terms of the retirement system as those terms existed on the date the retirement system began paying the disability benefits.

(d) On or after the effective date of this section, a change in service or disability retirement benefits or death benefits of a

retirement system may not reduce or otherwise impair benefits accrued by a person if the person:

(1) could have terminated employment or has terminated employment before the effective date of the change; and

(2) would have been eligible for those benefits, without accumulating additional service under the retirement system, on any date on or after the effective date of the change had the change not occurred.

(e) Benefits granted to a retiree or other annuitant before the effective date of this section and in effect on that date may not be reduced or otherwise impaired.

(f) The political subdivision or subdivisions and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under this section are not reduced or otherwise impaired.

(g) This section does not create a liability or an obligation to a retirement system for a member of the retirement system other than the payment by active members of a required contribution or a future required contribution to the retirement system.

(h) A retirement system described by Subsection (a) and the political subdivision or subdivisions that finance benefits under the retirement system are exempt from the application of this section if:

(1) the political subdivision or subdivisions hold an election on the date in May 2004 that political subdivisions may use for the election of their officers;

(2) the majority of the voters of a political subdivision voting at the election favor exempting the political subdivision and the retirement system from the application of this section; and

(3) the exemption is the only issue relating to the funding and benefits of the retirement system that is presented to the voters at the election.

SECTION 2. This constitutional amendment shall be submitted to the voters at an election to be held September 13, 2003. The ballot shall be printed to allow for voting for or against the proposition: "The constitutional amendment providing that certain benefits under certain local public retirement systems may not be reduced or impaired."

President of the Senate

Speaker of the House

I certify that H.J.R. No. 54 was passed by the House on April 29, 2003, by the following vote: Yeas 137, Nays 0, 1 present, not voting; and that the House concurred in Senate amendments to H.J.R. No. 54 on May 30, 2003, by the following vote: Yeas 144, Nays 0, 2 present, not voting.

Chief Clerk of the House

H.J.R. No. 54

I certify that H.J.R. No. 54 was passed by the Senate, with amendments, on May 28, 2003, by the following vote: Yeas 31, Nays 0.

____

Secretary of the Senate

RECEIVED: ______________________

Date

____

Secretary of State

President of the Senate

Speaker of the House

I certify that H.J.R. No. 54 (1) was passed by the House on April 29 (2), 2003, by the following vote: Yeas 137 (3), Nays 0, 1 present, not voting (4); and that the House concurred in Senate amendments to H.J.R. No. 54 on May 30 (5), 2003, by the following vote: Yeas 144 (6), Nays 0, 2 present, not voting (7).

Chief Clerk of the House

**** Preparation: CT19;

I certify that H.J.R. No. 54 (1) was passed by the Senate, with amendments, on May 28 (2), 2003, by the following vote: Yeas 31 (3), Nays 0 (4).

Secretary of the Senate

RECEIVED:

Date

Secretary of State

**** Preparation: CT20;

HJR-54

78TH LEGISLATURE

COAUTHOR AUTHORIZATION

(please request your coauthors to sign this form in lieu of the front or the back of the original bill)

Bill or Resolution Number: HJR 54

signature of **primary** author

Phil King
printed name of **primary** author

APR 29 2003
Date

PERMISSION TO SIGN HJR 54 HAS BEEN GIVEN TO (**check only one of the following**):
(bill or resolution #)

✓ ALL REPRESENTATIVES

_____ THE FOLLOWING REPRESENTATIVE(S): _____

I authorize the Chief Clerk to include my name as a coauthor of the legislation indicated above:

A2115 Allen	Date	A2450 Cook, Byron	Date	A2795 Farabee	Date
A2125 Alonzo	Date	A2565 Cook, Robert "Robby"	Date	A2810 Farrar	Date
A2160 Bailey	Date	A2595 Corte	Date	A2840 Flores	Date
A2170 Baxter	Date	A2605 Crabb	Date	A2850 Flynn	Date
A2205 Berman	Date	A2610 Craddick	Date	A2920 Gallego	Date
A2230 Bohac	Date	A2640 Crownover	Date	A2925 Garza	Date
A2250 Bonnen	Date	A2620 Davis, John	Date	A2960 Gattis	Date
A2280 Branch	Date	A2625 Davis, Yvonne	Date	A2945 Geren	Date
A2265 Brown, Betty	Date	A2635 Dawson	Date	A2935 Giddings	Date
A2270 Brown, Fred	Date	A2680 Delisi	Date	A2985 Goodman	Date
A2255 Burnam	Date	A3385 Denny	Date	A2990 Goolsby	Date
A2295 Callegari	Date	A2690 Deshotel	Date	A3010 Griggs	Date
A2290 Campbell	Date	A2705 Driver	Date	A3020 Grusendorf	Date
A2350 Canales	Date	A2665 Dukes	Date	A3045 Guillen	Date
A2300 Capelo	Date	A2660 Dunnam	Date	A3030 Gutierrez	Date
A2490 Casteel	Date	A2650 Dutton	Date	A3035 Haggerty	Date
A2495 Castro	Date	A2770 Edwards	Date	A3050 Hamilton	Date
A2585 Chavez	Date	A2775 Eiland	Date	A2695 Hamric	Date
A2480 Chisum	Date	A2780 Eissler	Date	A3160 Hardcastle	Date
A2525 Christian	Date	A2785 Elkins	Date	A3165 Harper-Brown	Date
A2435 Coleman	Date	A2790 Ellis	Date	A3170 Hartnett	Date

Bill or Resolution Number: HJR 54

1/03 1906.PMD

A3180 Heflin	Date	A3715 Madden	Date	A4220 Riddle	Date
A3190 Hegar	Date	A3750 Marchant	Date	A4250 Ritter	Date
A3250 Hilderbran	Date	A2835 Martinez Fischer	Date	A4270 Rodriguez	Date
A3275 Hill	Date	A3665 McCall	Date	A4350 Rose	Date
A3305 Hochberg	Date	A3650 McClendon	Date	A4420 Seaman	Date
A3290 Hodge	Date	A3845 McReynolds	Date	A4525 Smith, Todd	4/30 Date
A3325 Homer	Date	A3830 Menendez	Date	A4540 Smith, Wayne	Date
A3320 Hope	Date	A3815 Mercer	Date	A4530 Smithee	Date
A3330 Hopson	Date	A3840 Merritt	Date	A4550 Solis	Date
A3315 Howard	Date	A3835 Miller	Date	A4505 Solomons	Date
A3340 Hughes	Date	A3855 Moreno, Joe	Date	A4560 Stick	Date
A3355 Hunter	Date	A3860 Moreno, Paul	Date	A4570 Swinford	Date
A3360 Hupp	Date	A3870 Morrison	Date	A4585 Talton	Date
A3375 Isett	Date	A3865 Mowery	Date	A4600 Taylor	Date
A3405 Jones, Delwin	Date	A3885 Naishtat	Date	A4605 Telford	Date
A3420 Jones, Elizabeth	Date	A3895 Nixon	Date	A4630 Thompson	Date
A3400 Jones, Jesse	Date	A3900 Noriega	Date	A4650 Truitt	Date
A3475 Keel	Date	A3880 Oliveira	Date	A4685 Turner	Date
A3410 Keffer, Bill	Date	A3886 Olivo	Date	A4695 Uresti	Date
A3480 Keffer, Jim	Date	A4100 Paxton	Date	A4700 Van Arsdale	Date
A3470 King	Date	A4140 Pena	Date	A4800 Villarreal	Date
A3495 Kolkhorst	Date	A4160 Phillips	Date	A4995 West	Date
A3485 Krusee	Date	A4180 Pickett	Date	A5000 Wilson	Date
A3450 Kuempel	Date	A4185 Pitts	Date	A5020 Wise	Date
A3510 Laney	Date	A4200 Puente	Date	A5015 Wohlgemuth	Date
A3540 Laubenberg	Date	A4230 Quintanilla	Date	A4980 Wolens	Date
A3605 Lewis	Date	A4240 Rangel	Date	A4985 Wong	Date
A3620 Luna	Date	A4215 Raymond	Date	A5005 Woolley	Date
A3700 Mabry	Date	A4236 Reyna	Date	A5150 Zedler	Date

for chief clerk use only
Bill or Resolution Number: HJR 54

JOINT AUTHOR AUTHORIZATION

As primary author of HJR 54 I hereby authorize the following joint author(s):
(bill or resolution #)

APR 25 2003

ADDED BACK 4/29

REMOVED BY AUTHOR

~~Aaron Pena~~

printed name of joint author #1

signature of joint author #1

3/25/03

Elizabeth Ames Jones

printed name of joint author #2

4/23/03

signature of joint author #2

Jaime Capelo

printed name of joint author #3

signature of joint author #3

MAR 26 2003

David Swinford

printed name of joint author #4

signature of joint author #4

MAR 26 2003

signature of primary author

3/25/03

date

Pls. remove Rep.
Peña as joint author
to HJR 54

APR 2 5 2003

disregard
– Nat
C.C. office

for chief clerk use only
Bill or Resolution Number: ______________

JOINT AUTHOR AUTHORIZATION

As primary author of HJR 54 I hereby authorize the following joint author(s):
(bill or resolution #)

Ken Paxton
printed name of joint author #1

signature of joint author #1

Bryan Hughes
printed name of joint author #2

signature of joint author #2

Ruben Hope
printed name of joint author #3

signature of joint author #3

printed name of joint author #4

signature of joint author #4

signature of primary author

date

H.J.R. No. 54 By ____________________

proposing a constitutional amendment providing that membership in certain retirement systems is a contractual relationship and that accrued benefits in those systems cannot be reduced or impaired.

FEB 2 0 2003 Filed with the Chief Clerk

MAR 0 3 2003 Read first time and referred to Committee on Pensions and Investments

MAR 3 1 2003 Reported ___ favorably ([redacted]) (as substituted)

APR 1 1 2003 Sent to Committee on Calendars

APR 2 9 2003 Read second time (comm. subst.) (amended) and adopted ([redacted]) by a record vote of 137 yeas, 0 nays, 1 present, not voting

__________ Read third time (amended) and finally adopted (failed of adoption) by a record vote of ______ yeas, ______ nays, ______ present, not voting

APR 3 0 2003 Engrossed

APR 3 0 2003 Sent to Senate

Robert Haney

CHIEF CLERK OF THE HOUSE

OTHER HOUSE ACTION:

APR 3 0 2003 Received from the House

MAY 0 7 2003 Read and referred to Committee on STATE AFFAIRS

__________ Reported favorably __________

MAY 2 6 2003 Reported adversely, with favorable Committee Substitute; Committee Substitute read first time

__________ Ordered not printed

__________ Laid before the Senate

MAY 2 8 2003 Senate and Constitutional Rules to permit consideration suspended by (unanimous consent) (______ ~~yeas,~~ ______ nays)

MAY 2 8 2003 Read second time, __________, and passed to third reading by (~~unanimous consent~~) (a viva voce vote) (______ ~~yeas,~~ ______ nays)

MAY 2 8 2003 Senate and Constitutional 3 Day Rules suspended by a vote of 31 yeas, 0 nays

MAY 2 8 2003 Read third time, __________, and passed by 31 yeas, 0 nays

May 28, 2003 Returned to the House

SECRETARY OF THE SENATE

OTHER SENATE ACTION:

MAY 28 2003
_______________ Returned from the Senate (as substituted)
([redacted])

MAY 30 2003
_______________ House concurred in Senate amendments by a ([redacted])
(record vote of 144 yeas, 0 nays, 2 present, not voting)

_______________ House refused to concur in Senate amendments and requested the appointment of a conference committee by a (non-record vote) (record vote of ________ yeas, ________ nays, ________ present, not voting)

_______________ House conferees appointed: ____________________, Chair; ____________________, ____________________, ____________________, ____________________

_______________ Senate granted House request. Senate conferees appointed: ____________________, Chair; ____________________, ____________________, ____________________, ____________________

_______________ Conference committee report adopted (rejected) by the House by a record vote of ________ yeas, ________ nays, ________ present, not voting

_______________ Conference committee report adopted (rejected) by the Senate by a record vote of ________ yeas, ________ nays

03 MAY 29 AM 8:42

03 APR 10 PM 12:32
HOUSE OF REPRESENTATIVES